

Institutions, Values and Economic Development

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I would like to thank Ana Célia Castro for the privilege to chair this session of the International Seminar on Institutions and Economic Development, and mostly for her assurance that my role was not supposed to be strictly ceremonial, but that I would have the chance to participate to some extent in the debate.

As a social and political scientist, trained in the traditions of Marx, Durkheim and Max Weber, I was always convinced that Marx was right in that social formations and history matter, that Durkheim was right in his dispute with Gabriel Tarde about the existence of society as a reality by itself, external and previous to individuals, and that Weber was right in that society cannot be understood without reference to the individual's values and motivations. I think that the theoretical challenge of the social sciences, within which I include economics, has always been how to reconcile and combine these three perspectives, without surrendering completely to one of them - how to incorporate history without being deterministic, how to work with social facts without disregarding the individuals, and how to deal with culture, values and motivations within a consistent historical and social framework.

Because of this, I confess that I was never very impressed by the efforts of the "rational choice" theorists to provide political science with an individualistic and atomistic foundation, and I cannot fail to read with some amusement the brilliant efforts of institutional economists to recover the institutional and political dimensions of economic life, which, as far as I am concerned, have always been there. But I understand that what is at stake is

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² For an overview of Max Weber's career and contribution, the best source is probably Reihardt Bendix's *Max Weber - An Intellectual Portrait*, published with an extensive introduction by Guenther Roth by the University of California, Berkeley, 1960 and 1977.

³ The main reference here is Michael Thompson, Richard Ellis and Aaron

much more than a battle of principles about the nature of social and economic phenomena and behavior. Economics, as a discipline, has advanced much more than other social sciences in the understanding and analysis of very complex mechanisms and processes in modern societies, and the task of linking this accumulated knowledge and research traditions with the institutional approach is daunting, and I can only wish you good luck in the enterprise.

In reading some of the papers for this conference, and in particular those for this session, by Geoffrey Hodgson, Erik Reinert and Giovanni Dosi, I was struck by the little importance given by the authors to the contributions of Max Weber to the interpretation of the institutional and cultural foundations of modern capitalism, and I wonder whether this absence is due to their conviction that Weber's contribution was not very significant, or it was simply because he was not read again with enough attention. Erik Reinert makes a point in recalling the importance of recovering the contribution of the German economists of the prewar years and I expected, in vain, that he would not limit his references to Sombart, but deal with Weber as well.

I could not attempt to convince you of the importance of Weber in these short remarks, but I would like to recall that Weber was a full-fledged institutional economist and economic historian, having graduated in law and written his first academic works on economic subjects - his doctoral dissertation on the history of medieval business economics (1889), his second work on the relationships between Roman law and the agrarian economy, his extensive work on agriculture in Germany and on the German stock exchange². Later, of course, he wrote the classic work on the *Protestant Ethics and the Spirit of Capitalism*, and the monumental *Economy and Society*.

I believe Weber can help to fill two gaps I perceive in my (admittedly scant) reading of the institutional economics literature, which is his effort to explain the variety of institutional arrangements that condition economic life, and the links that may exist between the individual and the societal, or macro level. I think that the arguments against economic reductionism are very strong and convincing, but I still feel uncomfortable when I see Hodgson refer to institutional variables as "impurities" that are important but do not seem to be

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amenable to conceptual analysis. Weber tried to deal with this issue. For him, individual entrepreneurship and rationality were products of a specific culture and civilization, stemming from the Jewish-Christian tradition, and developing into a very peculiar set of institutions - the legal-rational political order, the modern professions, scientific and technological research, the modern universities and the organization of specifically economic institutions such as the stock exchange, the banking system and integrated markets. He saw a common thread linking all these institutions - the combination of abstract, contractual rules and their reliance on the principles of individual rationality, initiative and entrepreneurship. These institutions cannot be "reduced" however, to the level of the individuals which populate them, and did not "emerge" from their collective interaction. They developed and changed, from absolutist states to modern democracies, from patrimonial bureaucracies to modern public administrations, from medieval guilds to modern professional associations. They are, in other words, "path dependent" - a new way of saying that history matters. But this historical change was not random, it had a well-identified sense and direction, or, at least, a clearly identified drive - the movement toward rationalization and secularization, provided by the value system associated with the Jewish-Christian tradition and the highly decentralized political organization granted by European feudalism. Weber dealt extensively with the contrasts between Western civilization and traditions and those of India and China, and his approach provides, I believe, a very good standpoint from which to examine the ways societies and cultures which did not share Europe's cultural and institutional path (and past) deal and cope with some of the most obvious products of this tradition - the spreading of modern technology and the integration of markets.

One troublesome question in Weber is the role individual values and culture play in contemporary societies - after all, Protestant asceticism disappeared for most purposes centuries ago, but Capitalism is still very much with us. One possible solution is to consider that, once the values of protestant asceticism become ingrained in modern institutions, the individual level becomes less relevant; but this is not very satisfactory. Weber's theory of social action considered the existence of three types of behavior - traditional, rational-legal and charismatic -, and it is easy to see a continuum linking them, from the most institutional - traditional, ritualistic, repetitive - to the most individual and autonomous - charisma. The institutions of modern societies thrive in the confluence of tradition and charisma, which is, precisely, the realm of rational-legal behavior. Whenever rational-legal institutions lose the drive of individual charisma, they fall into tradition, and lose strength; whenever they are caught

by extreme charisma, they lose rationality and institutionality, and cannot survive.

A more explicit theory of cultural values and cultural change is needed, and Hodgson, in his paper, came very close to it, in his reference to a paper by Richard Ellis, but, unfortunately, did not choose to examine this expanding and very challenging field³. The idea in *Cultural Theory* is deceptively simple, but very powerful. Culture is not something given and unexplainable, a powerful but intractable “impurity,” but a “way of life,” a strategy adopted by individuals and groups as responses to the demands and constraints of their environment. These demands and constraints are social, external to individuals, and depend on the relative strength of two dimensions: a vertical dimension, grade, hierarchy, the strength of authority; and a horizontal dimension, grid, cohesion, or the strength of groups. Weak or low grid or grade lead to four types of culture, igualitarianism (low grade, strong grid), individualism (weak grid and weak grade), fatalism (strong grade and weak grid) and hierarchy (strong grid and strong grade). Wildawsky and his associates did not think of grids and grades as permanent fixtures of societies and civilizations, but as contingent arrangements which could combine in different ways in the same society, and be transformed by individual or collective action and social transformations of different kinds. The proponents of this theory of culture do not associate it with the institutional and historical tradition stemming from Max Weber, but I, at least, can see very easily a thread linking them both, and I believe that they both could contribute to the enrichment of this emerging and challenging field of institutional economics.

³ The main reference here is Michael Thompson, Richard Ellis and Aaron Wildawsky, *Cultural Theory*, Westview Press, 1990, and the theory is drawn from concepts developed by the anthropologist Mary Douglas. For an overview and some applications, see my “A Redescoberta da Cultura”, chapter 4 in S. Schwartzman, *A Redescoberta da Cultura*, São Paulo, EDUSP, 1997.